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C O N F I D E N T I A L PANAMA 001999

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TAGS: [ENRG](#) [ETRD](#) [PREL](#) [PGOV](#) [PM](#)
SUBJECT: GOP SCHIZOPHRENIC ON VENEZUELAN FUEL IMPORTS

REF: A. PANAMA 1293
[1](#)B. PANAMA 1213
[1](#)C. PANAMA 1518

Classified By: Deputy Chief of Mission L. Arreaga for reasons 1.4 (b) and (d)

[1](#)1. SUMMARY. (C) GOP Energy policy remains divided as the Ministry of Industry and Commerce (MICI) pursues divergent paths to ensure an affordable supply of petroleum for Panama. MICI Vice-Minister Jose Paredes stated publicly that the new Panamanian state run oil company would not distribute fuel, but serves as the vehicle by which the GOP could negotiate a refinery, importation of gas and fuel, and join regional energy initiatives with Central America, Colombia and Venezuela (Refs A & B). A high-ranking MEF official, however, told Econchief that he expects nothing substantive to come of the talks with Venezuela nor the GOP's proposed company. MICI announced in July that fuel storage capacity would be made available to the Venezuelan-Panamanian consortium, Lucky Petrol and Codetrap (Ref C) via tanks that are currently part of a GOP concession to Chevron. Chevron-Texaco country manager confirmed to Econoff that its Fuel and Marine Marketing (FAMM) division is negotiating with MICI to transfer 11 of its 19 tanks in Panama to the GOP.

VENEZUELAN FUEL: IT'S ALL ABOUT THE TANKS

[1](#)2. (SBU) Codetrap (Ref C) representatives say they expect an initial shipment of 40,000 barrels of gas and diesel from Venezuela, with subsequent shipments reaching the authorized quota of 250,000 barrels. The Secretary of the Venezuelan-Panamanian Chamber of Commerce told the press that the elimination of the middleman would result in fuel prices 15% below the current market. Industry sources told Econoff that to their knowledge, no such shipments have occurred or are scheduled to occur. In order to receive such a shipment, Codetrap needs storage facilities for the fuel.

[1](#)3. (C) A Chevron-Texaco (C-T) executive told Econoff that its FAMM division owns 19 tanks in Panama, all located on GOP leased land. Five are in Cristobal (Atlantic Coast) and fourteen in Balboa (Pacific Coast). C-T is currently using five (all located in Balboa). Three tanks are scheduled to be demolished, having been out of service for more than 30 years. The C-T executive told Econoff that the remaining 11 tanks are noncompliant with environmental and C-T corporate guidelines and that FAMM presented a formal proposal to MICI in mid-August to transfer the tanks to the GOP. FAMM and a C-T environmental team are currently working in parallel to prepare them for the transfer. The C-T executive did not

provide an estimate of when the tanks might be operational.

OIL EXECUTIVES TROUBLED BY POSSIBLE GOP RUN COMPANY

14. (SBU) Petroleum industry representatives met with Paredes in July to express their concerns about the legislation authorizing the creation of a state run petroleum company. The American Chamber of Commerce Hydrocarbons committee sent a formal letter to Minister of Trade Alejandro Ferrer in August. The letter highlighted the destabilizing impact of a state run company on Panama's free market investment climate, the unfair competition, the low fuel prices enjoyed by Panama compared to its neighbors, the historical ineffectiveness of state run fuel companies in Latin America to deliver competitive prices, and the stability and security of fuel supply enjoyed by Panama from its private sector hydrocarbons suppliers. Industry representatives told Econoff that have yet to receive an adequate reply from the GOP. A senior MEF official told Econchief that the GOP recognizes the inherent conflict in regulating a market in which they are a participant. He does not expect any substantive development of the state run company.

COMMENT

15. (SBU) GOP energy policy continues to be managed incohesively across two ministries. Although some GOP leaders appear anxious to pursue Venezuelan fuel imports and an active GOP involvement in the market, others continue to seek a private sector solution. Although the average Panamanian citizen would probably view fuel from Venezuela favorably, it is unlikely this can occur prior to the October 22 Canal referendum given the refurbishment needed by the proposed storage tanks.
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